BOSTON EDISON COMPANY

CAMBRIDGE ELECTRIC LIGHT COMPANY

COMMONWEALTH ELECTRIC COMPANY

NSTAR GAS COMPANY

Direct Testimony of Geoffrey O. Lubbock and Christine L. Vaughan

Exhibit NSTAR-GOL/CLV-1

D.T.E. 05-85

Table of Contents

BOSTON EDISON COMPANY
CAMBRIDGE ELECTRIC LIGHT COMPANY
COMMONWEALTH ELECTRIC COMPANY
NSTAR GAS COMPANY

Direct Testimony of Geoffrey O. Lubbock and Christine L. Vaughan

Exhibit NSTAR-GOL/CLV-1

D.T.E. 05-85

I. INTRODUCTION

Q. Please state your names and business address.

A. Our names are Geoffrey O. Lubbock and Christine L. Vaughan. Our business address is One NSTAR Way, Westwood, Massachusetts, 02090.

Q. Mr. Lubbock, by whom are you employed and in what capacity?

A. I am employed by NSTAR Electric & Gas Corporation ("NSTAR E&G") as Vice President, Financial Strategic Planning & Policy. In my current position, I am responsible for a broad range of regulatory and financial planning responsibilities for NSTAR's regulated distribution companies including Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric Company ("Commonwealth"), (collectively, "NSTAR Electric") and NSTAR Gas Company ("NSTAR Gas") (together with NSTAR Electric, the "Companies"). I am also responsible for these same responsibilities for the Federal Energy Regulatory Commission ("FERC") regulated parts of these businesses as well as for Canal Electric Company, which is wholly FERC regulated.

Q. Please describe your education and professional background.

A. I have a Bachelor and Master of Arts from Cambridge University and a Masters Degree in Business from the London Graduate School of Business. I joined

Boston Edison in 1988 as Manager of Revenue Requirements. In 1991, I became Manager of Revenue Requirements and Financial Planning. In 1993, I became Manager of Energy Research Planning and Forecasting. In 1995, I became Manager of Corporate Service Commitments and in 1997, I became Director of Generation Divestiture. I assumed my current position in July 1998. Prior to Boston Edison, I was with the Cabot Corporation, Exxon Corporation and Citibank.

Q. Have you previously testified in any formal hearings before regulatory bodies?

A. Yes, on a number of occasions. I testified before the Department of Telecommunications and Energy (the "Department") on behalf of Boston Edison in connection with the approval of its sale of the Pilgrim Nuclear Power Station to Entergy Nuclear Generation Company in D.T.E. 98-119. I have also testified before the Department to support Boston Edison's Restructuring Settlement Agreement in D.P.U./D.T.E. 96-23 and in connection with approval of the divestiture of Boston Edison's fossil generation assets in D.T.E. 97-113. More recently, I testified in NSTAR Electric's buyouts and buydowns of its power contracts with Pittsfield Generating Company, LLP, D.T.E. 04-60; MASSPOWER, D.T.E. 04-61; Ocean State Power. D.T.E. 04-68, Dartmouth Power Associates Limited Partnership, D.T.E. 04-78; and Northeast Energy Associates, D.T.E. 04-85, as well as an attendant securitization, D.T.E. 04-70.

Q. Ms. Vaughan, by whom are you employed and in what capacity?

A. I am Manager of Regulatory Requirements for the regulated operating companies of NSTAR. In this capacity, I am responsible for all regulatory filings concerning the financial requirements of Boston Edison, Commonwealth, Cambridge and NSTAR Gas.

Q. Please summarize your educational background.

A. I graduated from McGill University in Montreal, Canada in 1990 with a Bachelor of Engineering Degree and from Yale University in 1998 with a Masters Degree in Business Administration. Additionally, I have earned the right to use the Chartered Financial Analyst designation.

Q. Please summarize your business experience.

A. Before working at NSTAR, I worked as a management consultant for five years at Arthur D. Little and at Charles River Associates, a company that purchased a portion of Arthur D. Little. In this capacity, I assisted clients with financial issues such as acquisition support and asset privatization. I also helped clients develop long-range strategic plans and assisted them with market analysis. Prior to my consulting experience and my MBA, I worked for six years at DuPont and BASF as a development engineer.

Q. Please describe your present responsibilities.

A. As Manager of Regulatory Requirements, I am responsible for directing the preparation of financial data required for rate case filings and serve as revenue

requirement witness. My responsibilities currently include, among a variety of other financial services, the reconciliation of NSTAR Electric's transition and transmission charges and the Companies' cost of service, which forms the basis of our testimony today.

Q. Have you previously testified before any regulatory body?

A. Yes. I offered testimony at the FERC in Docket No. ER05-69-000 on behalf of Boston Edison relating to the modification of the Company's FERC Tariff No. 8, chiefly to permit the inclusion of 50 percent of construction work in progress in rate base. I also testified before the Department in D.T.E. 04-65 regarding the methodology for determining the value of Cambridge's streetlights. I am also currently sponsoring testimony in D.T.E. 04-114, the reconciliation filing of Cambridge and Commonwealth, D.T.E. 04-113, the reconciliation filing for Boston Edison, and for NSTAR's Pension Adjustment Factor in D.T.E. 04-118.

II. PURPOSE OF THIS TESTIMONY

Q. What is the purpose of your testimony?

A. This testimony is offered in support of the calculation of the revenue requirement and revenue deficiency of each of NSTAR's three electric distribution subsidiaries (Boston Edison, Commonwealth, Cambridge) and NSTAR Gas. In a filing to be made later this year, the merger of the three electric companies will be proposed. This companion filing will merge Cambridge, Commonwealth and Canal Electric and Boston Edison and provide for additional capitalization of the

merged company to be renamed NSTAR Electric. Since the format for each set of the cost-of-service schedules is the same, our testimony will describe the common elements of the schedules, and indicate those few places where the method of calculating the cost of service differs.

III. REVENUE REQUIREMENT METHOD

Q. Please explain how the distribution revenue requirement is derived.

A. The first step in developing a revenue requirement is to determine the costs incurred to serve customers during the test year. In this case, the Companies' distribution costs to serve are based on the booked financial records of the most recently completed twelve-month period for which published financials are available: the period from July 1, 2004 through June 30, 2005. Test-year costs and revenues not related to distribution (e.g., costs and revenues relating to transmission services, transition charges, Default ("Basic") Service, Standard Offer Service, cost of gas and demand-side management programs ("DSM")) are deducted. The test-year distribution costs are then adjusted for known and measurable changes in accordance with the precedent of the Department. The cost to serve, including operations and maintenance ("O&M") expenses, depreciation and amortization, taxes and return on rate base are then compared to adjusted test-year revenues to determine a revenue deficiency and corresponding net additional revenue that each of the Companies is entitled to recover. This approach is consistent with Department precedent and allows for revenues both to

recover reasonable costs of providing service and to earn a fair return on the investment made to provide service to customers. It should be noted that the format of the schedules provided as exhibits to this testimony, as described below, has been designed to comport with and reconcile to the Companies' financial books and records. Subsequent to the filing, the Companies will transfer the data to the less-detailed schedules that are typically included in Department rate orders and will submit those schedules to the Department.

Q. How does this approach compare to the Companies' prior base rate case filings?

A. There have been significant changes in the structure of electric and gas companies over the past ten-to-fifteen years. Industry restructuring has resulted in the unbundling of services, which requires the Companies to calculate a distribution-only revenue requirement. For example, the revenue requirements for the electric companies are simpler in that they no longer own electric production facilities. In addition, transmission facilities have been segregated functionally as required by FERC Order 888. To arrive at the electric distribution revenue requirements, the transmission assets and direct transmission expenses have been excluded. In addition, shared plant and expenses that are allocated to the FERC Transmission Cost of Service ("TCOS") have been excluded from the distribution revenue requirement to avoid double recovery of costs. For example, the amounts of general plant and administrative and general expense allocated to the TCOS have been deducted from the distribution revenue requirement by calculating the

amount of these costs that would be allocated to the transmission function using the allocators in the relevant transmission tariffs. Similarly, in order to calculate the revenue deficiencies, transmission revenues have been excluded, and only distribution revenues are shown. This allocation performs effectively the same separation of costs as would occur if the distribution and the transmission entities were separate entities. Also excluded from the calculation of the distribution revenue requirement of both the gas and electric companies are the energy costs and DSM costs recovered in the Basic Service, Standard Offer Service, Cost of Gas Adjustment Clause ("CGAC") and the DSM filings. Pension and post-retirement costs other than pensions ("PBOP") that are recoverable in the pension adjustment mechanism ("PAM") are also excluded. In summary, costs and revenues relating to other rate mechanisms are excluded from the distribution costs of service.

Q. What period have the Companies used as the test year, and why?

A. The Companies have used the year from July 1, 2004 to June 30, 2005 as their test year. This period is the most recent 12-month period for which published financial data are available.

Q. What is the rate year as you use that term in this testimony?

A. Department rate-case precedent often refers to the year following the date that new rates go into effect. Our testimony will refer to that period as the "rate year." The Department typically suspends proposed new rates for the maximum six

months, and the tariffs in this case are filed for effect on December 1, 2005. Consequently, we have assumed that new rates will go into effect on June 1, 2006, and the rate year will be for the period from June 1, 2006 through May 31, 2007.

Q. Have the Companies followed Department precedent in preparing these distribution revenue requirements?

A. The Companies have made every effort to follow Department precedent.

Q. Please describe the exhibits accompanying your testimony.

A. In this filing, the Companies' revenue deficiencies are calculated in the following exhibits. For ease of reference, we will refer to them as Exhibit NSTAR-CLV-2, Exhibit NSTAR-CLV-3, etc. However, there are separate exhibits for each distribution company. Each set of exhibits has a prefix indicating the appropriate company.

- **Exhibit NSTAR-CLV-2** computes the **revenue deficiency** for each of the Companies and includes pages itemizing O&M expenses, adjusted for known and measurable changes, Depreciation and Amortization, Taxes Other Than Income Taxes, Allowance for Income Taxes and the required Return on Rate Base. The remaining exhibits provide support for these overall cost-of-service exhibits.

- **Exhibit NSTAR-CLV-3** shows the **known and measurable changes** in payroll, bad debts, rate case expenses, insurance and inflation**.** These adjustments are carried forward to Exhibit NSTAR-CLV-2, page 3.

- **Exhibit NSTAR-CLV-4** computes the proposed adjustment for the test-year **property tax** expense based on the most recent property tax bills. Consistent with Department precedent, this adjustment to property taxes will be updated during the proceeding to include additional tax bill received. This updated amount includes tax abatements received during the test year and is carried forward to page 5 of Exhibit NSTAR-CLV-2.

- **Exhibit NSTAR-CLV-5** calculates each of the Companies' **working capital allowance** for use in determining the distribution rate base. This amount is carried forward to page 7 of Exhibit NSTAR-CLV-2.

- **Exhibit NSTAR-CLV-6** shows the allocation of **accumulated deferred income taxes** to either distribution or non-distribution functions. The total distribution-related deferred taxes are brought forward to page 7 of Exhibit NSTAR-CLV-2, on lines 17, 18 and 19 (and line 20 for NSTAR Gas).

- **Exhibit NSTAR-CLV-7** presents detail of **test-year revenues** by six-digit FERC account and classifying each item according to either distribution or non-distribution functions. Total distribution revenue is then carried forward to page 8 of Exhibit NSTAR-CLV-2.

- **Exhibit NSTAR-CLV-8** shows the O&M detail for the electric companies and provides a **reconciliation of the O&M** accounts on Exhibit NSTAR-CLV-2, page 2 to each NSTAR Electric FERC Form 1 for June 2004, December 2004 and June 2005. There is no Exhibit NSTAR-CLV-8 for NSTAR Gas because it doesn't file a FERC Form 1.

- **Exhibit NSTAR-CLV-9** details the **transmission allocators** for the electric companies and provides the calculation of the allocation percentages used in the filings.

- **Exhibit NSTAR-CLV-10** is the **balance sheet** items in the general ledger as of June 30, 2005.

- **Exhibit NSTAR-CLV-11** is the **income statement** in the general ledger for the test year from July 1, 2004 to June 30, 2005.

- **Exhibit NSTAR-CLV-12** is the breakdown of plant in service by detailed plant account and the breakdown of accumulated depreciation by detailed plant account as of June 30, 2005 (this breakdown is not available for Boston Edison because depreciation is not calculated on an individual plant account basis, as done for Cambridge, Commonwealth and NSTAR Gas).

- **Exhibit NSTAR-CLV-13** is a copy of the latest transmission tariffs for each electric company. For Boston Edison, the latest tariff was accepted

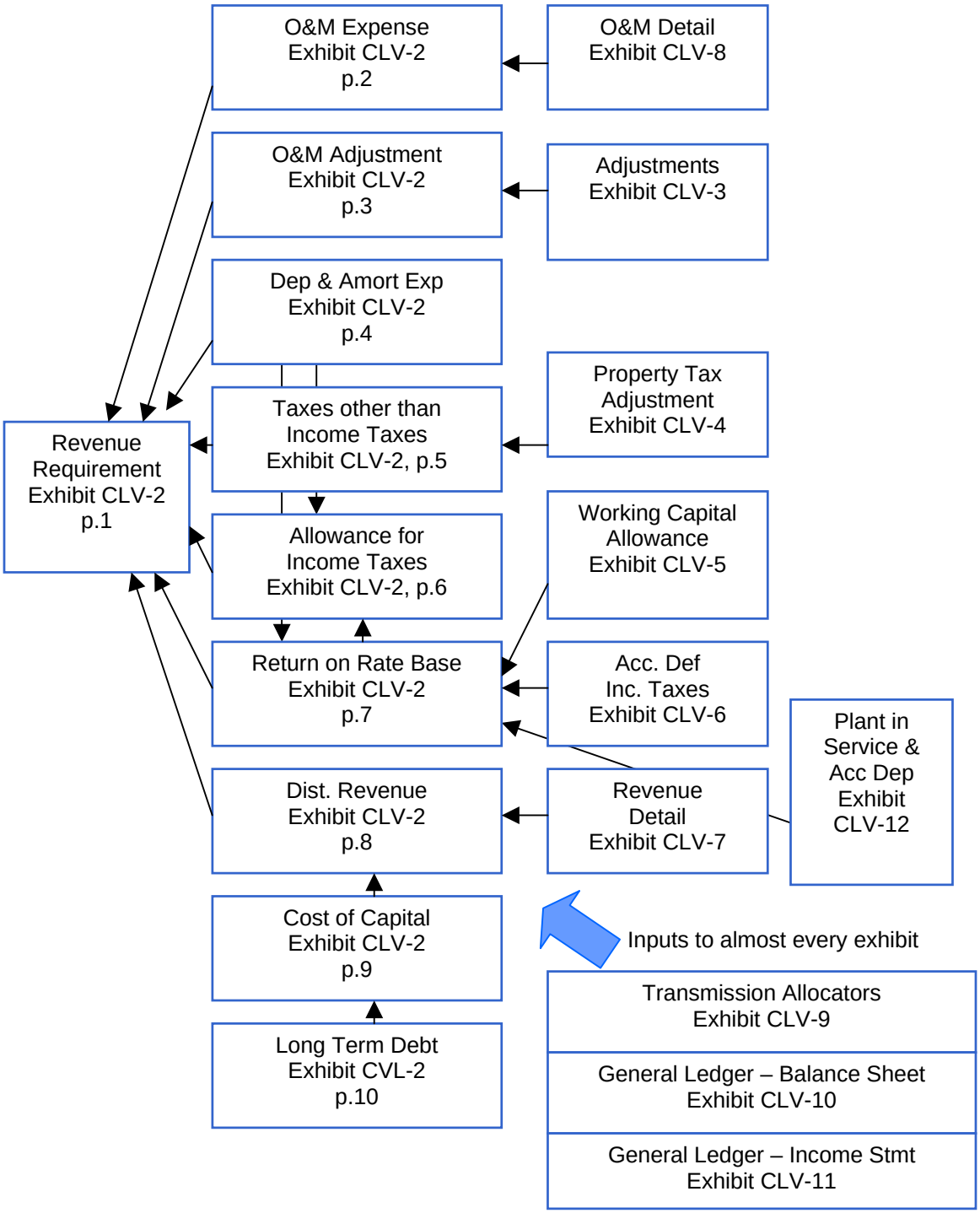
by FERC in Docket No. ER05-374-001, with an effective date of February 1, 2005. For Cambridge and Commonwealth, the latest tariffs were accepted by FERC in Docket No. ER05-742-000, with an effective date of June 1, 2005.

- **Exhibit GAS-CLV-13** is selected pages for the test year of the Department Annual Returns for NSTAR Gas. The pages consist of plant in service (pp. 17-18), revenues (p. 43), and operation and maintenance expense (pp. 46-47).

- **Exhibit GAS-CLV-14** is a collection of NSTAR Gas advertising produced and mailed to heating customers during the test year.

Figure 1, below, illustrates the major linkages and ties between the exhibits.

EXHIBIT NSTAR-CLV-1
Figure 1 : CLV Exhibit Links



Q. Please generally describe each page of Exhibit NSTAR-CLV-2, the calculation of each of the Companies' revenue deficiency.

A. Exhibit NSTAR-CLV-2 is a ten-page exhibit that calculates the revenue requirement and the revenue deficiency.

- Page 1, **Distribution Revenue Requirement**, summarizes the distribution revenue requirement, distribution revenues and resulting distribution revenue deficiency.
- Page 2, **Operations & Maintenance Expense**, calculates the distribution cost of service by removing energy supply costs, DSM, and, in the case of the electric companies, transmission and transition O&M.
- Page 3, **Operations & Maintenance Expense Adjustments**, shows known and measurable changes to test year expenses, such as salary and wage increases and inflation.
- Page 4, **Deprecation and Amortization Expense**, details the calculation of depreciation and amortization expense based on the test-year-end investments.
- Page 5, **Taxes Other than Income Taxes**, shows the detailed breakdown of payroll and property taxes.
- Page 6, **Allowance for Income Taxes**, shows the calculation of the allowable expense for income taxes for ratemaking purposes.

- Page 7, **Return on Rate Base**, shows the calculation of the allowed return on rate base.
- Page 8, **Distribution Revenues**, shows the breakdown of operating revenues by three-digit FERC account.
- Page 9, **Cost of Capital**, calculates the weighted average cost of capital.
- Page 10, **Cost of Long-Term Debt and Preferred Stock**, calculates the weighted average cost of long-term debt and preferred stock used in the calculation of the cost of capital, page 9.

Q. Please describe in more detail, Exhibit NSTAR-CLV-2, page 1, Distribution Revenue Requirement.

A. Exhibit NSTAR-CLV-2, page 1 shows the overall distribution revenue requirement and the revenue deficiency for each of the Companies. For each line, the amount relating to distribution is shown in column B. References to appropriate pages of Exhibit NSTAR-CLV-2 are shown in column C. The revenue requirement is determined by adding the recoverable distribution O&M expense, depreciation and amortization expense, taxes other than income taxes, allowance for state and federal income taxes, and a return on rate base. The distribution revenue requirement is compared to the test-year distribution revenues, and the difference is the distribution revenue deficiency. Also shown is the level of revenues that are being transferred between distribution rates and other tariff mechanisms. For instance, for NSTAR Electric, the amount of bad

debt and cash working capital that is to be recovered in energy costs is shown separately, so that if the Department were to require that such costs be included in distribution rates, the additional deficiency is computed. Similarly, Boston Edison shows an adjustment of $35.4 million for the wholesale revenue credit that is presently being collected in the transition charge. Although the total revenue deficiency for Boston Edison is $101.286 million, the elimination of the annual recovery of $35.4 in the transition charge reduces the net impact to customers to $65.886 million.

IV. OPERATIONS AND MAINTENANCE EXPENSE

Q. Please explain Exhibit NSTAR-CLV-2, page 2 Operations & Maintenance Expense, column C.

A. Test-year O&M expenses are shown on Exhibit NSTAR-CLV-2, page 2. Columns A and B list the FERC account number and account description, respectively, as they appear on pages 321, 322, and 323 of the annual FERC Form 1 for NSTAR's electric subsidiaries and on pages 46 and 47 of the FERC Form 2 filed with the Department for NSTAR Gas. Column C contains the amount for each account as would be shown on the FERC Form 1 for the electric companies and the NSTAR Gas' Form 2 for filed with the Department. We say "would be shown" because the test year is not a single calendar year, and the filings for NSTAR Gas are done only on a calendar-year basis. In addition, although the electric companies file FERC Form 1 on a quarterly basis, pages 324 and 325 of those filings contain limited detail on certain O&M accounts, such as Customer

Accounts, Customer Service and Sales. The detailed data set forth on page 2 of Exhibit NSTAR-CLV-2 (as well as other financial data filed in support of the calculation of revenue requirement) have been taken from the Companies' general ledgers, and, for the electric companies, the balances have also been reconciled to the appropriate FERC Form 1 in the quarterly filings by taking the 2004 annual balances, deducting the mid-year 2004 year to date balances and adding the mid-year 2005 balances. This calculation for each of the electric companies is set forth on Exhibit NSTAR-CLV-8.

Q. Please explain Exhibit NSTAR-CLV-2, page 2, column D.

A. Column D shows the amounts allocated to electric transmission rates. Since gas transmission service is not provided by NSTAR Gas, the amounts in column D are zero. In the case of the electric companies, the amounts allocated to transmission are calculated using the allocators defined in the FERC transmission tariffs. All the transmission O&M expenses are allocated to transmission with the exception of accounts 565 "Transmission of Electricity by Others" and account 567 "Rents," where some transmission costs are recovered through the transition charge. Transmission costs for remote generation units associated with purchase power contracts, and costs relating to the DC portion of the Hydro Quebec line are recovered through the transition charge and are therefore removed from the distribution O&M in column E. Transmission Administration and General expenses are recovered using the transmission labor allocator for most accounts.

Electric transmission costs relating to property insurance are recovered using the fixed asset allocator; Regulatory Commission Expenses are recovered based on direct assignment, and account 930 (excluding account 930.1 General Advertising Expenses) uses a labor allocator. In addition, in the case of Cambridge, some expenses that are accounted for as distribution O&M are allocated to the transmission function because Cambridge's 13.8 kilovolt ("kV") plant was categorized as transmission plant in 1996. The determination to classify Cambridge's 13.8 kV facilities as transmission was reviewed and approved by the Department in D.P.U./D.T.E. 97-93, at 11 (1998) as part of the FERC Order 888 classification of transmission plant.

Q. Please explain Exhibit NSTAR-CLV-2, page 2, column E.

A. Column E shows costs recovered in other Department-approved rates. It includes costs of energy procured by the Companies for their customers (Basic Service and the final eight months of Standard Offer Service for the electric companies and the cost of gas recovered in the CGAC for NSTAR Gas). It also includes O&M expenses that are recovered through separate, reconciling charges made in conformance with the Companies' Renewables and Demand Side Management tariffs and the PAM tariffs. The PAM adjustment leaves the same base amount in the distribution cost of service set in D.T.E. 03-47, and recovers the difference between that amount and the annual amount permitted under the annual adjustment clause. This adjustment is included on line 62 (line 44 for NSTAR

Gas) of Exhibit NSTAR-CLV-2, page 2. NSTAR Gas is billed by Hopkinton LNG for costs associated with operating and maintaining the liquefied natural gas facility. It records these charges in account 808, Liquefied Natural Gas, and is recovered through both its base rates and CGAC. The portion attributable to base rates includes the demand charge, local taxes and administrative expenses (Exhibit GAS-CLV-2, page 2, line 2, column G). The remaining costs in account 808 relate to the operation of the facility and are recovered through the CGAC.

Q. How are the administrative and general ("A&G") costs for services billed under other tariffs, such as Basic Service and DSM, treated within Exhibit NSTAR-CLV-2, page 2, column E?

A. Neither the transition charge for NSTAR Electric nor the PAM tariff recovers A&G costs, so no adjustment for A&G is necessary for these items. During the test year, administrative costs and bad-debt costs relating to providing Basic Service were recovered through base rates. However, effective July 1, 2005, administrative and bad-debt costs associated with providing this service are recovered from Basic Service customers under the Department-approved settlement in D.T.E. 03-88. Consistent with the D.T.E. 03-88 settlement and Department precedent, the NSTAR Electric proposes to assign to Basic Service customers their pro-rata share of bad debt costs. This adjustment to test-year expense is shown on Exhibit NSTAR-CLV-3, page 2, line 8 (also on Exhibit CLV-2, page 1, line 10). It is derived by taking the test-year Basic Service revenues and applying the three-year average rate of net write-offs to operating

revenues. This adjusts the level of O&M expenses to be recovered in base distribution rates, which is then carried forward to Exhibit NSTAR-CLV-2, page 3, line 4. Like NSTAR Electric, NSTAR Gas, consistent with the rate unbundling settlement approved by the Department in D.T.E. 98-63, proposes to continue to assign to its Default Service customers through the CGAC their pro-rata share of bad-debt costs via an identical adjustment to test year expense. This is shown in Exhibit NSTAR-CLV-3, page 2, line 9, which. adjusts the level of O&M expenses to be recovered in base distribution rates, and is then carried forward to Exhibit NSTAR-CLV-2, page 3, line 4. A&G costs are included in the DSM tariffed rates, but these costs are transferred to the DSM account 908050. Since the DSM-related costs are excluded from the other O&M accounts on line 47 of Exhibit NSTAR-CLV-2, page 2, no further adjustment is necessary as the costs are already excluded from distribution.

Q. What are the adjustments in Exhibit NSTAR-CLV-2, page 2, column F?

A. The adjustments in column F are distribution costs that the Department has determined should not be included in the calculation of the revenue requirement. In general, these "disallowed" distribution costs are those where the Department has determined that the distribution company has not provided sufficient proof that the customer benefits from this cost expenditure. For example, certain categories of promotional or advertising costs are not included in the calculation of revenue requirement. There are no advertising expenses included in the cost of

service for NSTAR Electric. There is approximately $0.104 million of advertising expense included in the cost of service for NSTAR Gas in account 913. This advertising pertains to home-heating protection brochures, booklets and letters for gas heating customers. Copies of these advertising efforts are included as Exhibit GAS-CLV-14. Lobbying activities, dues and memberships, charitable contributions, and fines or penalties have also been removed from the distribution cost of service. Although some of the costs have been booked "below the line" to accounts not included in the cost of service, some have been booked "above the line". If costs are booked above the line, they are included in column C and removed in column F based on the Department precedent.

Q. Please explain Exhibit NSTAR-CLV-2, page 3, Operations & Maintenance Expense Adjustments.

A. Exhibit NSTAR-CLV-2, page 3 shows adjustments to the test-year distribution O&M (computed on page 2) to reflect known and measurable changes to the test year amounts.

- Line 1 brings forward the test-year O&M expense from the last line of page 2.
- Line 3, **Labor**, shows the adjustment to test-year wages and salaries for known and measurable increases that will take place within six months after new rates go into effect (prior to the middle of the rate year). The adjustment is calculated on Exhibit NSTAR-CLV-3, page 1.

- Line 4, **Bad Debt Expense**, is the adjustment to test year bad-debt expenses computed based on the three-year average rate of net uncollectible write-offs as applied to the distribution revenues. The adjustment is calculated on Exhibit NSTAR-CLV-3, page 2.

- Line 5, **Rate Case Expense**, is the adjustment to test-year expenses to include the incremental expenses incurred for the rate case, normalized over the average number of years between rate cases. The adjustment is calculated on Exhibit NSTAR-CLV-3, page 3.

- Line 6, **Insurance Expense**, shows the adjustment to test-year insurance expenses based on the most recent insurance costs. The adjustment is calculated on Exhibit NSTAR-CLV-3, page 4.

- Line 7, **Inflation**, adjusts the test-year residual O&M expenses (that is, the distribution O&M less items that are adjusted separately) for inflation. Consistent with Department precedent, the inflation factor applies to the time period between the middle of the test year and the middle of the rate year. The inflation adjustment is calculated on Exhibit NSTAR-CLV-3, page 5.

- Line 8, **Service Guarantee Fees**, adjusts for any test-year payments to customers for failure to meet appointments or other service-related "customer-guarantee" payments.

- Line 9, **Security, Safety and Quality Improvement Program** ("SSQIP"), adjusts the test-year O&M expenses for known and measurable increases for the Companies' SSQIP including stray voltage inspection and remediation, removals of double poles, manhole inspection, repair and upgrades. The level included on line 9 is the level above the current costs and expenses that are included in the test year. This adjustment is described in the testimony of Philip Andreas, Vice President of Electric Operations for NSTAR (Exhibit NSTAR-PBA-1).

Q. Please explain Exhibit NSTAR-CLV-3, page 1, Distribution Labor Increases.

A. Exhibit NSTAR-CLV-3, page 1, computes the known and measurable changes to the distribution labor expenses for union and non-union employees. In accordance with Department precedent, the testimony of Mr. Peloquin (Exhibit NSTAR-BBP-1) demonstrates that the overall compensation and benefits expenses are reasonable, based on appropriate comparative analyses. Consistent with that overall compensation package, the union wage increases set forth in Exhibit NSTAR-CLV-3, page 1, represent known and measurable increases based on signed contracts with the two unions that represent employees of the Companies. Local 369 of the Utility Workers Union of America, AFL-CIO, represents all union employees for the three electric companies and some employees for NSTAR Gas. The remainder of the unionized employees of NSTAR Gas are represented by Local 12004, United Steelworkers of America,

AFL-CIO. Wage increases are established under the terms of those contracts (copies of which are included with Mr. Peloquin's testimony). Exhibit NSTAR-CLV-3, page 1, column B (and column C for NSTAR Gas) computes the known and measurable post-test-year expenses. Lines 3 through 7 annualize increases that occurred during the test year. Lines 9 through 17 compute post-test-year known and measurable increases that reflect the contractual pay rate increases that will occur before the midpoint of the first year after new rates go into effect (before the mid-point of the rate year).

Q. Please explain how non-union wage increases are calculated.

A. The non-union labor increase is calculated in identical fashion to that for the union employees. Test year increases are annualized in lines 3 through 7 of column C (column D for NSTAR Gas). Department precedent allows post-test year increases that will occur within six months after the date that new rates go into effect if it finds that there is an express commitment by management to grant the increase and that there is an historical correlation between union and non-union pay increases. As described by Mr. Peloquin, the Companies have a long-standing policy of maintaining wage parity by increasing non-union wages at levels comparable to increases received by unionized employees, and there is an express commitment by management to grant the post-test-year increase.

Q. Please explain Exhibit NSTAR-CLV-3, page 2, Bad Debt Adjustment.

A. Page 2 computes the adjustment to test-year levels of bad debt. The historical "experience rate" of bad debts is calculated based on the past three calendar years. The experience rate is calculated by dividing the amount of net write-offs in the year by total revenues (line 5, column D). The historical "experience rate" is then multiplied by the test-year revenues, plus the deficiency (line 5, column B) to determine the total bad-debt allowance (line 5, column C). This figure is then compared to the test-year bad-debt expense. (line 6, column C), to determine the total bad-debt adjustment (line 7, column C). There is no recovery of bad debts for the DSM, PAM or the transition charge through the reconciliation mechanisms, thus the bad debts for these items will continue to be included in the distribution base rates. In accordance with Department precedent and the settlement filed in D.T.E. 03-88 for the NSTAR Electric, bad debt amounts attributable to costs for Basic Service will be collected in the Basic Service rates, and are subtracted from the bad-debt adjustment (line 8, column C). Similarly, consistent with the rate unbundling settlement approved by the Department in D.T.E. 98-63, bad debt amounts for NSTAR Gas Default Service customers will be collected in CGAC rates and have been removed from the bad-debt adjustment in Exhibit NSTAR-CLV-3, page 2. Mr. LaMontagne's testimony (Exhibit NSTAR-HCL-1) describes the recovery mechanisms in those tariffs.

Q. Please explain Exhibit NSTAR-CLV-3, page 3, Rate Case Expense Adjustment.

A. The normalized level of rate case expenses are calculated on Exhibit NSTAR-CLV-3, page 3. The total rate case expense is allocated to each of the Companies using the NSTAR Labor Allocator. In accordance with Department precedent, the rate case costs are estimated and will be updated during the proceeding. The updated costs are normalized by dividing the total by the average number of years between rate cases. In keeping with past practices, actual rate case expenses will be tracked as the case progresses and the cost estimates will be updated as needed prior to the close of the record in this proceeding.

Q. Did NSTAR engage outside services for this rate case?

A. Yes. The Companies have engaged the services of outside consultants, attorneys and witnesses for this rate case, and the associated merger and PBR proceedings. These outside services include: preparing depreciation studies; determining the cost of common equity, preparing marginal cost studies, developing a PBR plan and performing legal, paralegal and administrative support.

Q. Did the Companies use a competitive bidding process to procure these services?

A. The following services were competitively bid: Marginal Cost Study – awarded to Navigant Consulting, Inc.; Cost of Capital Study – awarded to Moul & Associates. The following services were not bid because the consultants involved had significant prior experience with NSTAR and/or with the Department filings

and the Companies concluded that direct awards would not only be more effective, but also less expensive. In this regard, the Companies consider that the costs for these services compare favorably with other costs for similar services that the Department has reviewed and approved in other recent cases: Legal – awarded to Keegan Werlin LLP; PBR – awarded to Pacific Economics Group; and Depreciation – awarded to Gannett Fleming.

Q. Please explain Exhibit NSTAR-CLV-3, page 4, Insurance Adjustment.

A. Exhibit NSTAR-CLV-3, page 4 computes the known and measurable adjustment for insurance expenses. This adjustment is based on comparing the latest actual bills received to the test year expense amounts. The test year expense is the actual billed amount. The Companies will provide copies of the latest insurance premium bills as they become available.

Q. Please explain Exhibit NSTAR-CLV-3, page 5, Inflation Adjustment.

A. Exhibit NSTAR-CLV-3, page 5 computes the inflation allowance, consistent with Department precedent. The inflation adjustment permits an adjustment to test year expenses not separately adjusted (the "residual O&M") to account for projected inflation from the mid-point of the test year to the midpoint of the year following the effective date for the new rates. It is calculated on page 5 by reducing test-year O&M expenses by those elements that are separately adjusted (lines 1 through 7) and the residual O&M is increased based on the change in the Consumer Price Index ("CPI") from the middle of the test year to the middle of

the year following the rate change. The CPI indices (provided by Global Insight, Inc.) are shown on lines 11 through 33. The inflation allowance is the product of the inflation factor (line 8) and the residual O&M (line 7).

Q. How are the O&M expense adjustments included in the calculation of revenue requirement?

A. The adjustments detailed on Exhibit NSTAR-CLV-3 are summarized on page 3 on Exhibit NSTAR-CLV-2. The total on Exhibit NSTAR-CLV-2, page 3, line 10 is carried forward to Exhibit NSTAR-CLV-2, page 1. Thus, the amount shown on Exhibit NSTAR-CLV-2, page 1, line 1, column C is the test-year O&M expense, adjusted for known and measurable changes.

V. DEPRECIATION AND AMORTIZATION EXPENSE

Q. Please describe Exhibit NSTAR-CLV-2, page 4, Deprecation & Amortization Expense.

A. Exhibit NSTAR-CLV-2, page 4 is a calculation of the depreciation and amortization expense. For depreciation, the Companies have used individual accrual rates for each asset classification within the categories of intangible plant, distribution plant, and general plant. This method is consistent with the method previously applied by Cambridge and NSTAR Gas, as well as other electric and gas utilities in Massachusetts. Boston Edison and Commonwealth had applied a single rate each for Distribution and General plant. Utilizing separate rates for each asset class results in depreciation rates that more accurately reflect the actual expected useful life of each asset classification. The depreciation rates were taken

from the studies conducted by Gannett Fleming and described in Mr. Spanos' testimony (Exhibit NSTAR-JJS-1). The year-end asset balances for distribution and general plant are taken from the test year-end FERC Form 1 for each of the electric companies and in the test year-end balance in the format of the FERC Form 2 for the NSTAR Gas. These are shown in column C. For the NSTAR Electric, the assets included in the transmission tariff are eliminated from the distribution balance (NSTAR Gas has no FERC-regulated transmission tariffs). This includes all transmission plant and a percentage of the general and intangible plant depending on the labor allocator in the currently effective respective transmission tariffs. Additionally, for Cambridge, the plant associated with transmission (13.8 kV-related plant) is also eliminated. Specific references to the FERC Form 1 are shown in column I for the electric companies. Depreciation for each account is calculated by multiplying the asset balance in column E with the applicable depreciation rate in column G. Existing depreciation rates are shown in column F for reference. Finally, for comparison purposes only, the test-year depreciation amounts are shown on the lines at the bottom of the page.

Q. Please explain the items listed under the heading "Amortization".

A. Each of the Companies includes the amortization of the goodwill and costs to achieve relating to the merger of BEC Energy and Commonwealth Energy System. Those amortizations are permitted by the Department as part of the rate plan approved in D.T.E. 99-19. The total annual goodwill amount for the

Companies is $12.252 million and the total annual cost to achieve is $16.431 million. The recovery of these costs was approved by the Department in D.T.E. 99-19 on July 27, and October 24, 1999, and allocated as described in the reports filed with the Department on November 23, 1999 and July 6, 2000. In accordance with that rate plan, the unamortized balances are not included in rate base.

In addition, Boston Edison includes the continued amortization of costs relating to distribution asbestos removal and certain distribution-related allowance for funds used during construction ("AFUDC"). These amortizations arose out of a FERC audit of the period from 1987 through 1990. The FERC determined that Boston Edison should not have charged certain asbestos-removal costs as a "cost of removal", but rather should have charged the costs as O&M expenses, as incurred. However, under a 1992 settlement agreement approved by the Department in D.P.U. 92-92 (Section VII.A.), Boston Edison's settled Distribution depreciation rate began including these costs as a retail depreciation expense. Thus, these amounts were allowed to be classified in account 182.3 for FERC reporting purposes. Since these costs were included in account 108 under the Department-approved settlement agreement, a reclassification is made each year for purposes of the FERC Form 1. Also during the 1987-1990 audit, the FERC determined that it did not agree with Boston Edison's calculation of AFUDC for 1987 and 1988. The FERC determined that Boston Edison had

recorded AFUDC in excess of what would be permitted under Electric Plant Instruction No. 3. However, the Department approved the recovery of the carrying charges that were in excess of that permitted by EPI No. 3(17). Therefore, the additional carrying charges represent a created regulatory asset. The amounts recorded under this audit are reclassified to account 182.3 for FERC reporting purposes, but remain as a component of plant-in-service for Department reporting purposes to reflect the retail regulatory and accounting treatment.

The net balances are includable in rate base as normal fixed assets.

Q. Are there gains on the sale of utility property that are flowed back to customers in these costs of services?

A. For NSTAR Electric, gains on the sale of utility property are flowed back to customers through the transition charge, so no gains are in the rate case. For NSTAR Gas, a gain of $891,443 was recorded on the sale of property located on Samoset Street, Plymouth. Consistent with Department precedent, the gain on the sale is flowed back to customers over six years (the time between rate cases). The result is a reduction in the overall amortization expense. The amortization of the gain is shown on Exhibit NSTAR-CLV-2, page 4, line 47 ($891,443 / 6 years = $148,574).

VI. TAXES OTHER THAN INCOME TAXES

Q. Please explain Exhibit NSTAR-CLV-2, page 5.

A. Exhibit NSTAR-CLV-2, page 5, calculates payroll taxes and property taxes. Per-book payroll and property taxes are shown in column C. To adjust for known and measurable changes, test-year payroll taxes are increased by the percentage increase in labor expenses calculated on the last line of Exhibit NSTAR-CLV-3, page 1, and are then multiplied by the payroll tax factor. The payroll tax factor is a calculated percentage using actual test-year wages for each employee, adjusted for known and measurable wage increases, and then multiplied by the rate year tax rates and limits. This calculation takes into account both higher Social Security payroll tax caps in the rate year, and the effect of employees earning more, but that are still under the tax cap. Payroll taxes are also reduced by the percentage of payroll taxes recovered in the transmission cost of service.

Per-book property taxes are shown in column C. Specific to Boston Edison, per-book property taxes for the Town of Plymouth that are collected through the transition charge are deducted. These are not allocated to the transmission customers and are collected through the transition charge as approved by the Department in D.T.E. 98-53, in accordance with a settlement with the Town of Plymouth, and subsequent transition charge reconciliation cases. Property taxes are adjusted for the latest property tax bills available in accordance with precedent. This adjustment is detailed on Exhibit NSTAR-CLV-4, and will be

further adjusted as new property tax bills are received. Test-year abatements reduce the property tax expense as follows: Boston Edison $4,942.37; Commonwealth $16.932.73; Cambridge $0.00; and NSTAR Gas $85.32. Updated property tax payments have been and will continue to be reduced for the percentage of property tax expenses recovered in the transmission cost of service.

Payroll and property taxes are summed and carried forward to Exhibit NSTAR-CLV-2, page 1 in the row labeled "taxes other than income taxes".

VII. INCOME TAX ALLOWANCE

Q. Please explain Exhibit NSTAR-CLV-2, page 6.

A. The income tax allowance is calculated on Exhibit NSTAR-CLV-2, page 6. The revenue requirement includes an allowance for income taxes so that the Companies' rates permit them to earn their allowed return on equity after taxes are paid. Unlike many of the Companies' expenses, returns on common and preferred equity and certain other expenses are not deductible for tax purposes, which requires a revenue allowance for income taxes. These items include amortizations of goodwill; the non-tax deductible portion of costs to achieve; depreciation on basis differences; recovery of the deferred tax balances with the settlement adjustments from D.P.U. 89-100 and D.P.U. 92-92 and the reverse South Georgia; Average Rate Assumption Method ("ARAM") Excess Reserve Amortization and Investment Tax Credit ("ITC") amortization net of ITC amortization in the TCOS. The items that require a tax gross up are totaled on

line 8 and the gross up rate of 64.54 percent (as calculated on lines 15 thru 24) is applied to determine the revenue requirement to needed for the required taxes as shown on line 10. This tax allowance is adjusted for the amortization of the South Georgia/Settlement adjustments and amortization of ITC (this item has not been included elsewhere in the cost of service and only the tax impact is reflected in line 12). The tax allowance net of this adjustment is shown on line 13 and carried forward to page 1.

Q. Please explain the Average Rate Assumption Methodology adjustments for Cambridge and NSTAR Gas and the reverse South Georgia Adjustment in Boston Edison.

A. With the adoption of FAS 109, the Companies were required to calculate reserve for accumulated deferred income taxes using the current tax rate. The difference between the balance so calculated and the book balance became a regulatory asset or liability at that time. The ARAM method was used to reverse the surplus related to depreciation when the related detailed property tax records were available, and the reverse South Georgia method was used when these detailed records were not available. The objective is to reverse the surplus over the tax depreciable lives of the related assets.

Q. Why is there no excess reserves adjustment for Commonwealth?

A. Commonwealth flowed back all its excess reserves several years ago, and no further adjustment is needed.

Q. Please explain the Settlement Agreement and South Georgia balances in Boston Edison.

A. In D.P.U. 92-92, Boston Edison was allowed to adjust its deferred tax balances to achieve a set return on equity. The deferred balances thus created are being amortized as part of the reverse South Georgia amortization calculation.

Q. Please explain the ARAM Excess Reserve Amortization in Cambridge Electric and NSTAR Gas.

A. The reversal of the depreciation-related deferred income tax reserve surplus relating to past changes in the Federal income tax rates is amortized under the Average Rate Assumption Methodology. This computation reverses the tax surplus over the depreciable life of the assets that gave rise to the surplus.

Q. Please explain the income tax allowance calculation.

A. The tax gross-up is calculated first by determining the statutory tax rate. Taxable income on line 15 is subject to a State tax of 6.5 percent leaving 93.5 percent subject to Federal taxes at 35 percent resulting in a net Federal tax rate of 32.725 percent (line 19). The Federal tax is added to the State tax to give a total effective tax rate of 39.225 percent (line 21). The after-tax amount is what remains after taxes being 60.775 percent as shown on line 23. The income tax allowance of 64.54 percent is calculated on line 24 by dividing the effective tax rate by the after-tax amount. Thus, an expense that is not tax deductible requires an income tax allowance of 64.54 percent so that the after-tax amount is 100 percent (164.54

multiplied by the tax rate 39.225 percent provides for a tax of 64.54 and leaves 100 percent of the recoverable expense).

VIII. RATE BASE AND RETURN ON RATE BASE

Q. Please explain Exhibit NSTAR-CLV-2, page 7, Return on Rate Base.

A. Rate base and the return on rate base is calculated on Exhibit NSTAR-CLV-2, page 7. The rate base starts with the gross distribution utility plant in service listed on Exhibit NSTAR-CLV-2, page 4**.** Capital Additions are discussed in the testimony of Robert Martin (Exhibit NSTAR-RHM-1)**.** The gross plant in service is reduced by the test year-end accumulated depreciation on that plant in service. As described below, rate base is further adjusted by adding cash working capital and materials and supply inventories. Finally, rate base is reduced by deducting certain construction advances and customer contributions, and accumulated deferred income taxes. The total net distribution rate base is multiplied by the weighted average cost of capital as computed on Exhibit NSTAR-CLV-2, page 9, to compute the total return on rate base, which is carried forward to page 1, line 5. The references are shown in column H.

Q. How is net plant computed on Exhibit NSTAR-CLV-2, page 7, line 9?

A. The test year asset balance on line 1 can be found on the depreciation schedule on Exhibit NSTAR-CLV-2, page 4, line 43, column E as the total distribution-related plant. The accumulated depreciation and amortization that is shown on lines 2 through 6 can be found on Exhibit CLV-12. A credit for the transmission

percentage of the accumulated depreciation is shown in column D and the distribution balance is shown in column G**.** The accumulated amortization and depreciation is totaled on line 7. The net distribution plant is shown on line 9 which is difference between the gross plant on line 1 and the accumulated amortization and depreciation on line 7.

Q. Please explain the fuel inventory for NSTAR Gas on line 10 of page 7.

A. NSTAR Gas keeps gas in storage both in caverns and stored as liquefied natural gas. The test-year-end cost of the fuel inventory is included in rate base.

Q. Please explain the working capital adjustment line 11 of page 7.

A. Working capital on line 10 is calculated in Exhibit NSTAR-CLV-5. The cash working capital calculation utilizes the standard convention of 30 days for energy and 45 days for non-energy O&M.

Q. Why does the rate base include a working capital adjustment for power purchases for NSTAR Electric?

A. Consistent with Department precedent, NSTAR Electric has included a working capital adjustment for power purchases in rate base. However, NSTAR Electric proposes that working capital for power purchases be collected in rates for Basic Service by calculating the working capital amount associated with power purchases and multiplying that amount by the total cost of capital approved in this case, grossed up for taxes on the equity return. Mr. LaMontagne's testimony

(Exhibit NSTAR-HCL-1) describes the recovery mechanisms in the Basic Service tariffs.

Q. Please explain the Materials and Supplies amount on CLV-2, page 7, line 12.

A The investments in the inventory of Materials and Supplies are taken from the FERC Form 1 for NSTAR Electric, and the amount in transmission is deducted.

Q. Please explain the Unamortized Leased Equipment D&I costs on line 13.

A NSTAR Gas leases gas equipment to home owners and the cost of this equipment is included here. The revenues are included in the gas revenues.

Q. Please explain the reduction of rate base to reflect uncashed checks on Exhibit NSTAR-CLV-2, page 7, line 15.

A. Rate base is reduced for uncashed checks the Companies have issued to customers or suppliers. These represent free sources of cash to the Companies, and the benefit of these free funds is flowed through to customers by crediting them against rate base. In some past base rate cases, customer deposits have also been applied as a credit to rate base; however, this is no longer appropriate since customers receive interest on their deposits at rates established by the Department.

Q. Please explain the rate base credit for contributions in aid of construction Exhibit NSTAR-CLV-2, page 7, line 16.

A. Rate base is reduced for the value of the contributions in aid of construction ("CIAC") consistent with Department precedent. This represents a free source of cash because CIAC does not represent a cash outflow. The benefit of these funds is flowed through to customers by crediting them against rate base.

Q. Please explain the adjustments for accumulated deferred income taxes Exhibit NSTAR-CLV-2, page 7, lines 17 through 20.

A. Prepaid Income Taxes in account 190 are shown on line 17. For NSTAR Electric, account 282, Accumulated Deferred Income Taxes – Other Property is shown on line 18, and Accumulated Deferred Income Taxes – Other in account 283 is shown on line 19. For the NSTAR Gas, accounts 265, 268 and 283 are shown on lines 18 through 20. Non-distribution items in accounts 190, 282, and 283 have been excluded from the distribution cost of service, leaving only distribution-related deferred tax assets and liabilities to be included in rate base. Exhibit NSTAR-CLV-6 is a detailed listing of deferred taxes items that shows the determination between non-distribution and distribution amounts for purposes of inclusion in each of the Companies' rate base. Amounts in column C are the per book, June 30, 2005 amounts. Column D eliminates those items relating to electric transmission. Column E excludes those items recovered under different recovery clauses, including the transition charge for the electric companies and the PAM-related deferred taxes are also significant items for all of the Companies. Column F excludes other items where the related asset or liability is not included in the rate base. The largest such items are cost to achieve and goodwill associated with the merger of BEC Energy and Commonwealth Energy System.

IX. DISTRIBUTION REVENUES

Q. Please explain Exhibit NSTAR-CLV-2, page 8.

A. Distribution revenues are shown on Exhibit NSTAR-CLV-2, page 8. Columns A and B show the FERC account and account description, respectively. Amounts from the FERC forms are shown in column C. At the bottom of the page for NSTAR Electric, the revenues relating to the FERC Form 1 are determined by taking the 2004 annual amount in column C, deducting the January-to-June 2004 total in column D and adding the January-to-June 2005 total in column E. The amounts under the heading "12 months ended 6/30/05" are shown on the Lines 1 through 17 as the per books balance is shown in column C. Amounts in column D show transmission-related revenues for the electric companies, which are removed from the per-book amounts. Column E shows revenues removed that relate to the transition charges (for the electric companies) energy supply, DSM and PAM. Column F shows specific adjustments to distribution revenues such as "Provisions for Rate Refunds". Column G shows the net distribution-related revenues. The detailed sub-account-by-sub-account determination of each test-year revenue item is detailed on Exhibit NSTAR-CLV-7.

Q. Please explain Exhibit NSTAR-CLV-7.

A. The revenue detail in Exhibit NSTAR-CLV-7 lists revenue accounts from each of the Companies' general ledger. Sub-accounts of the FERC accounts are shown in column A, and their description in column B. By showing operating revenues at

the sub-account level, it is possible to identify revenue that is not distribution related (columns D, E and F), and that which is distribution revenue (column G). Sub-accounts are totaled by FERC account and carried to Exhibit NSTAR-CLV-2, page 8. As can be seen on the exhibit, in accounts 440 – 444, only distribution-specific revenues are included. The other sub-accounts relate either to power procurement, transition, transmission, or DSM charges.

Q. Have the Companies proposed any adjustments to test-year revenues?

A. Yes. The Companies have proposed five adjustments to test year revenues. The first is a revenue adjustment for NSTAR Gas for weather normalization on Exhibit CLV-2, page 8, line 19. This adjustment is discussed in Mr. LaMontagne's testimony. The second adjustment for NSTAR Gas is the amortization of the entitlement to the gain on the sale of the Research Park parcel in the City of Cambridge. The third is an adjustment for miscellaneous non-utility revenues in account 417, which relate to services related to the Companies' core business provided to other companies such as engineering for electrical connections, wireless communication revenues, and property management and development revenues.. These revenues are credited to the cost of service on line 20. The fourth adjustment is for streetlight revenues for Cambridge on line 4. As provided for in the Restructuring Act, several cities and towns have purchased their streetlights during the test year, which has resulted in lower distribution revenues to the electric companies. For Cambridge, this adjustment was

necessary to annualize the impact of lower streetlight distribution revenues in the future. The fifth adjustment that decreases the deficiency is a pro forma adjustment relating to the schedule of new service fees proposed by the Companies. If approved, it would increase the amount of distribution revenues recovered. The total of these distribution revenues and credits are shown on line 23 and carried forward to page 1.

X. CAPITAL STRUCTURE

Q. Please explain Exhibit NSTAR-CLV-2, page 9, Cost of Capital.

A. Exhibit NSTAR-CLV-2, page 9 calculates the cost of capital. Each of the Companies' actual capital structure is shown on lines 1 through 4, column B. The percent of capital set forth in column C is the share of debt, preferred and equity that is being applied for purposes of computing the weighted average cost of capital. The actual debt-equity ratios for NSTAR Gas, Cambridge and Commonwealth deviate significantly from standard utility practice, and therefore, the Companies propose that the impute a capital structure of 50 percent debt and 50 percent equity for ratemaking purposes. A capital structure of 50 percent equity is consistent with the capital structure of approved in pre-merger litigated general rate cases of Cambridge (49.89 percent equity in D.P.U. 92-250), Commonwealth (49.89 percent equity in D.P.U. 89-114/90-331/91-80) and NSTAR Gas f/n/a Commonwealth Gas Company (51.093 percent equity in D.P.U. 87-122). The Boston Edison capital structure is the test year-end amounts

adjusted for known and measurable changes. The cost of long-term debt and equity are shown on column D. The cost of long-term debt is the actual weighted average cost of debt set forth in Exhibit NSTAR-CLV-2, page 10. The cost of common equity is the return determined by Mr. Moul (Exhibits NSTAR Electric-PRM-1 and NSTAR Gas-PRM-1). The weighted average cost of capital is computed in column E by multiplying column C by column D. The total weighted average rate of return is shown on line 4.

Q. Please explain Exhibit NSTAR-CLV-2, page 10.

A. The cost of each of the Companies' long-term debt and preferred stock is calculated on page 10 by taking the outstanding amount and adjusting it for the unamortized premiums or expenses associated with the debt. The cost of the debt is calculated by adjusting the interest on the outstanding debt by the amortization of the premiums or expenses associated with the debt. Debt issues that are called or come due prior to one year before the middle of the year after the new rates become effective are excluded. In the case of Commonwealth's and Boston Edison's variable rates, the Company has determined the average of the actual London Inter-Bank Offer Rate (the interest rate that the banks charge each other for loans), to which it then added the 50 basis points to set the cost of the newest issue. To the extent possible**,** the Companies will update this number during the course of these proceedings.

XI. TRANSMISSION ALLOCATIONS

Q. Please explain Exhibit NSTAR-CLV-9.

A. Exhibit NSTAR-CLV-9 shows the calculation of the transmission allocators used in NSTAR electric's cost of service. These calculations follow the formulas prescribed in the transmission tariffs, which are included as Exhibit NSTAR-CLV-12. The plant allocator is shown on page 1, line 11. It is derived by dividing total plant relating to transmission and by the total plant in service. Plant relating to transmission includes transmission plant, a portion of transmission and general plant, and in the case of Cambridge, the 13.8 kV portion of the distribution plant that serves a transmission function. The tariffs specify a similar calculation for both the Scheduling and Dispatch (Schedule 1) and for the regular cost of service (Schedule 21). Since the effect of these two calculations is additive, they are combined in Exhibit NSTAR-CLV-9. The transmission plant and subsequent plant allocator therefore includes the scheduling and dispatch components.

The labor allocator is calculated on Exhibit NSTAR-CLV-9, page 1, line 16. Wages and salaries allocated to transmission are divided by total wages and salaries, net of administrative and general expenses. The wages and salaries allocated to transmission have been calculated for the test year and are drawn from an analysis of labor expenses shown on Exhibit NSTAR-CLV-9, page 2, line 69, column F. For Cambridge, this includes a portion of the operation and

maintenance accounts for distribution. For all companies, wages and salaries associated with scheduling and dispatch have been included in these totals.

The bottom of Exhibit NSTAR-CLV-9, page 1 shows a description of the allocation of amount to transmission for the 565 subaccounts. The transmission tariff for each 565 subaccount is separately identified.

Exhibit NSTAR-CLV-9, pages 2 and 3 further examines the test year labor values and allocates the labor to both management and union. This is used in the labor adjustment on Exhibit NSTAR-CLV-3, page 1.

For Cambridge, Exhibit NSTAR-CLV-9, page 4 additionally shows the calculation of the transmission allocators relating to Cambridge's 13.8 kV distribution plant. The second calculation shows the accumulated depreciation associated with 13.8 kV transmission plant.

XII. STORM FUND

Q. Is the calculation of revenue requirement effected by the existence of the Boston Edison storm fund established in accordance with the terms of the Restructuring Settlement approved by the Department in D.P.U./D.T.E. 96-23?

A. No. The Boston Edison storm fund established a storm reserve fund of $8 million in accordance with the terms of the Restructuring Settlement. The funds were set aside to pay the incremental O&M costs associated with a major storm and was funded with $8 million of proceeds received through the sale of Clean Air Act Emission Allowances. D.P.U./D.T.E. 96-23, at 68. In the event that the

incremental costs to Boston Edison resulting from a storm exceeds $1 million, Boston Edison may use the storm fund to pay the incremental expenses and then replenish the storm fund up to a maximum of $3 million per year. Because there were no major storms in the test year, there was no contribution made and there are no expenses that would have an impact on the calculation of Boston Edison's revenue deficiency.

Q. Is NSTAR Electric proposing any changes in the Boston Edison storm fund?

A. Yes. In view of the proposed merger of Boston Edison, Cambridge and Commonwealth to create a single electric company and normal inflationary impacts that could result in higher storm costs, NSTAR Electric proposes to increase the fund level from $8 million to $15 million. Again, this increased funding can be accomplished by using emission credits that have been sold, thus avoiding any impact on the revenue deficiency. NSTAR Electric requests Department approval of this proposal.

Q. Does this conclude your testimony?

A. Yes.